Saskatchewan
Municipal Employees'
Pension Commission

Annual Report 2001

Municipal Employees' Pension Commission

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Saskatchewan
Finance

Her Honour, The Honourable Dr. Lynda M. Haverstock
Lieutenant Governor of the Province of Saskatchewan
Government House
4607 Dewdney Avenue
Regina, Saskatchewan
S4P 3V7

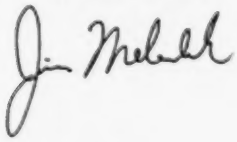
Dear Madam:

Letter of Transmittal

I have the honour to transmit herewith the sixtieth Annual Report of the Municipal Employees' Pension Commission for the year ending December 31, 2001.

I have the honour to be, Madam,

Your obedient servant,



Jim Melenchuk
Minister in Charge
Municipal Employees' Pension Commission

Saskatchewan
Public Employees
Benefits Agency

The Honourable Jim Melenchuk
Minister in Charge
Municipal Employees' Pension Commission
Regina, Saskatchewan

Sir:

Letter of Transmittal

On behalf of the Municipal Employees' Pension Commission, I have the honour to present herewith the sixtieth Annual Report of the Municipal Employees' Pension Commission for the year ending December 31, 2001.

Respectfully submitted,

Brian Smith
Chairman

INTRODUCTION

Section 7(1.1) of *The Municipal Employees' Pension Act* provides authority to the Municipal Employees' Pension Commission to administer the Municipal Employees' Pension Plan.

The Municipal Employees' Pension Commission consists of a Chairman appointed by the Lieutenant Governor in Council to represent the Government of Saskatchewan, and eight members representing their respective associations as listed below.

NAME	POSITION	REPRESENTING
Brian L. Smith	Chairman	The Government of Saskatchewan
Ronald Walter	Vice-Chairman	Saskatchewan Association of School Business Officials
Barry Hayden	Member	Designated Police Officers and Firefighters
Audrey Trombley	Member	The Rural Municipal Administrators' Association of Saskatchewan
Keith Schneider	Member	The Saskatchewan Urban Municipalities Association
Brian Sych	Member	The Urban Municipal Administrators' Association of Saskatchewan
Dwight Welisch	Member	The Saskatchewan School Trustees' Association
Robert Schultz	Member	The Saskatchewan Association of Rural Municipalities
Claire Malhoff	Member	Saskatchewan Regional Colleges Trustees' Association

The Commission members are ultimately responsible for the Plan's administration, communication and investment activities. The major duties of the Commission include setting investment, accounting and administration policies, allocation of interest to the Plan, interaction and consultation with members and employers, and decisions with regard to member and employer issues. To discharge these and other responsibilities, the Commission may use the services of various organizations.

OPERATIONS OF THE PLAN

OVERVIEW

The Municipal Employees' Pension Plan consists of a defined benefit plan and a defined contribution plan.

The defined benefit pension plan provides a monthly allowance at retirement based on three highest years' average salary and on the amount of contributory service credited under the defined benefit plan.

The defined contribution plan provides an annuity benefit at retirement. The defined contribution plan was closed to new members on July 1, 1973. Members of the defined contribution plan became members of the defined benefit plan.

Retiring long service members may be eligible for a pension benefit under each of the plans.

INCOME ALLOCATION

For the year 2001, the Commission allocated investment income to members' accounts at the rate of 5.7% per annum for the defined benefit and the defined contribution plans.

INVESTMENT OF FUNDS

As trustees of the Municipal Employees' Pension Fund, the Commission is responsible for safeguarding and investing the monies of the Plan.

Responsibility for investing the assets of the Plan has been delegated to professional investment managers. Each manager invests within a specific mandate. As at December 31, 2001 the investment managers invested the following portions of the portfolio:

Investment Manager	Mandate	Percentage of Fund
Greystone Capital Mgmt. Inc.	Balanced Fund	51.6%
Foyston, Gordon & Payne	Canadian Equities	11.4%
Brandes Institutional Equity Trust	Non-North American Equities	9.3%
Barclays Global Investors	Foreign Equities Indexed Fund	16.9%
Lincluden Mgmt. Ltd.	Canadian bonds	10.8%
Total		100.0%

The Commission has appointed Royal Trust as the Plan's custodian. The custodian is responsible for safekeeping of assets, income collection, settlement of investment transactions, and accounting for investment transactions.

James P. Marshall, Inc. has been retained as the Plan's investment consultant. The investment consultant monitors the activities of the investment managers and reports the results to the Commission.

INVESTMENT POLICY

While the responsibility for individual investment decisions is delegated to professional investment managers, the Commission has established an investment policy.

The purpose of the policy is to provide a framework for the management of the Plan's funds within acceptable risk levels. The policy provides the investment managers with specific standards for the quantity and quality of investments, as well as rate of return objectives.

The Commission reviews the investment policy on an annual basis.

INVESTMENT OBJECTIVES

The investment managers make the day-to-day decisions of whether to buy or sell specific investments in order to achieve the long-term investment performance objectives set by the Commission. It is these long-term investment performance objectives that the Commission uses to assess the performance of the investment managers.

The primary long-term investment performance objective for the entire portfolio is to outperform a benchmark portfolio constructed as follows:

Asset Class	Market Index*	Weight
Canadian Equities	TSE 300	21%
US Equities	S&P 500	18%
Non-North American Equities	EAFE	18%
Real Estate	Russell Canadian Property Index	3%
Bonds	SCM Universe	38%
Short Term Investments	91 Day T-Bills	2%
Total		100%

** Descriptions of these indices appear in Appendix 'A'.*

A second objective is to equal or exceed market returns over moving four-year periods, as follows:

- the TSE/CPMS 300 Cap 10 Index on Canadian equities;
- the S&P 500 Index on Large Cap U.S. equities;
- the S&P 400 Index on Mid Cap U.S. equities;
- the MSCI EAFE Index on non-North American equities;
- the RCPI Index on real estate; and
- the Scotia Capital Universe Bond Index on bonds.

A third objective is to achieve a minimum real rate of return of 3%; that is, the Canadian Consumer Price Index plus 3% over moving four-year periods.

The Commission reviews the investment performance of the Fund in terms of the performance of the benchmark portfolio over rolling four-year periods. The performance of investment managers is also reviewed based on the objectives set for their individual mandates. The following table summarizes the Fund's investment performance as at December 31, 2001:

	1 Year		4 Years	
	Actual	Objective	Actual	Objective
Total Fund	2.6%	-3.2%	8.9%	6.4%
Greystone	-0.2%	-2.3%	8.3%	6.6%
Foyston	23.8%	-10.4%	12.6%	5.7%
Brandes*	-5.5%	-16.7%	NA	NA
Lincluden	7.6%	8.1%	7.3%	6.5%
Barclays – Large Cap**	-12.9%	-12.4%	NA	NA
Barclays – Mid Cap**	-1.7%	-1.6%	NA	NA
Barclays – Bonds**	8.2%	8.1%	NA	NA

Note:

* 4-year rates of return are not applicable to Brandes, whose mandate began in November of 1998.

** 4-year rates of return are not applicable to Barclays, whose mandate began on February 2, 1999.

ADMINISTRATION OF THE PLAN

The Public Employees Benefits Agency (PEBA) provides the day-to-day administration of the pension plan. There is an administrative contract between PEBA and the Municipal Employees' Pension Commission.

The annual operating expenditures associated with the Plan's administration are paid by the Public Employees Benefits Agency Revolving Fund, and are charged to the Municipal Employees' Pension Plan.

PEBA is responsible for accounting for all investment transactions, collecting the members' and employers' contributions, and the calculation and issuance of monthly pension benefits to pensioners. PEBA is responsible for ensuring that all transactions are done in accordance with *The Municipal Employees' Pension Act*.

PEBA issued 3,100 monthly pension payments to pensioners for the year ended December 31, 2001. PEBA's objective is to ensure that all payments are made by their due dates and that all supplemental increases for pensioners are processed on a timely basis. PEBA met all deadlines in 2001.

The Commission and PEBA worked on a number of significant projects in 2001, including:

- Upgrade of Computer System

  In 1999, the Commission began work on a major upgrade of its pension administration system. Development, testing and implementation of the new system continued into 2001.

- Plan Review

  The Commission undertook a major review of the provisions of the Plan's policies, procedures, and *The Municipal Employees' Pension Act* in 1999. A large consultation process with Plan members and employers was part of this review.

  The result of the review was a significant set of proposals aimed at improving benefits to members and spending the Plan's excess surplus. These provisions were approved by the Provincial Legislature in 2000 and were implemented January 1, 2001.

SUPPLEMENTAL INCREASE FOR PENSIONERS

In January 2001, the Commission announced its sixteenth pension supplement to pensioners. Pensions that commenced prior to 2000 were increased by 2.38%. The increase for pensions starting in 2000 was prorated based on the date the pension commenced.

UPCOMING REPORTING CHANGE

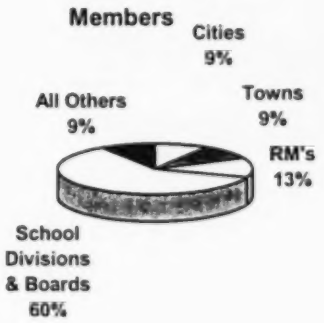
The Municipal Employees' Pension Plan (Plan) was a defined contribution plan for service prior to July 1, 1973 (Former Plan) and a defined benefit plan for service after that date. Upon retirement, members of the Former Plan may elect to purchase an annuity from the Plan. Additionally, members are eligible to receive an annuity for excess contributions under the defined benefit plan for retirements that occurred on or prior to December 31, 2000.

Effective January 1, 2002 the Canada Customs and Revenue Agency requires the Commission to account for the assets associated with the Plan's annuity underwriting activity separately from the other assets of the Plan. At present the value of the assets associated with the annuity underwriting activity are commingled with the other assets of the Plan. This change in reporting will be reflected in the 2002 financial statements.

COMPARATIVE STATISTICS

PLAN MEMBERSHIP (Active)

	Employers		Members	
	#	%	#	%
Cities	7	1.0%	960	9.0%
Other	10	1.3%	85	0.8%
Regional Colleges	8	1.1%	269	2.5%
Regional Libraries	8	1.1%	269	2.5%
Rural Municipalities (RMs)	296	39.2%	1329	12.5%
School Divisions & Boards	93	12.4%	6,384	60.3%
Towns	142	18.9%	961	9.0%
Villages	188	25.0%	363	3.4%
Total Participants	752	100.0%	10,620	100.0%



DEFINED BENEFIT MEMBERSHIP

Active	10,763
Transitional deferreds	1,131
Deferreds	1,418

RETIREMENT COMPARISONS

	2001	2000	1999	1998	1997	1996
Normal Retirement	39	61	67	58	75	76
Early Retirement	114	81	86	110	75	92
Postponed Retirement	8	9	11	17	8	12
Other	22	5	0	4	8	5
Total Retirements	183	156	164	189	166	185

ADMINISTRATION EXPENSES

(in thousands of dollars)

	2001		2000	
	Budget	Actual	Budget	Actual
Administration costs	$2,991	$2,068	$2,508	$2,279
Custodial fees	99	96	121	104
Investment management fees				
Greystone	792	720	793	777
Foyston	426	387	338	322
Brandes	325	278	480	462
Lincluden	261	238	232	216
Barclays	178	144	40	25
	$5,072	$3,931	$4,512	$4,185

MANAGEMENT'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

Administration of the Plan is presently assigned to the Public Employees Benefits Agency of the Department of Finance. Management is responsible for financial administration, administration of funds and managing of assets.

The financial statements which follow have been prepared by management in conformity with accounting principles generally accepted in Canada. Management uses internal controls and exercises its best judgment in order that the financial statements fairly reflect the financial position of the Plan.

The Municipal Employees' Pension Commission reviews and approves the financial statements. In doing so, the Commission has had the opportunity to discuss the statements with management throughout the year.

The present value of annuities is determined by an actuarial valuation. Actuarial valuation reports require best estimate assumptions about future events which require approval by management.

The financial statements have been examined by KPMG whose report follows.

Brian Smith
Executive Director
Public Employees Benefits Agency

Ann Mackrill
Director, Pension Programs
Public Employees Benefits Agency

Regina, Saskatchewan
February 4, 2003

ACTUARIES' OPINION

Eckler Partners Ltd. was retained by the Municipal Employees' Pension Commission (the Commission) to perform actuarial valuations of the assets and liabilities of the Municipal Employees' Pension Plan (the Plan) on an accounting basis as at December 31, 2001. Eckler Partners Ltd. was further retained to prepare a summary of the development of the financial position of the Plan from that reported in last year's Annual Report to that determined by the valuation at December 31, 2001.

The valuation and extrapolation of the Plan's actuarial assets and liabilities were based on:

- Membership and asset data provided by the Commission as at December 31, 2001;
- Methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements; and
- Assumptions about future events (economic and demographic) which were developed by management and Eckler Partners Ltd. and are considered as management's best estimate of these events.

While the actuarial assumptions used to estimate liabilities for the Plan's financial statements contained in the Annual Report represent management's best estimate of future events, and while in our opinion these assumptions are not unreasonable, the Plan's future experience will differ from the actuarial assumptions. Emerging experience differing from the assumptions will result in gains or losses that will be revealed in future valuations, and will affect the financial position of the Plan.

We have tested the data for reasonableness and consistency with prior valuations and in our opinion the data is sufficient and reliable for the purposes of the valuation and the extrapolation. We also believe that the methods employed in the valuation and extrapolation and the assumptions used are, in aggregate, appropriate. Our opinions have been given and our valuation and extrapolation have been performed in accordance with accepted actuarial practice.

John Corp, FIA, FCIA
Eckler Partners Ltd.

February 4, 2003

MUNICIPAL EMPLOYEES' PENSION COMMISSION

MUNICIPAL EMPLOYEES' PENSION PLAN

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2001

AUDITORS' REPORT

To the Members of the Legislative Assembly of Saskatchewan

We have audited the statement of net assets available for benefits, accrued pension benefits and surplus of the Municipal Employees' Pension Plan as at December 31, 2001 and the statements of changes in net assets available for benefits and changes in accrued pension benefits for the year then ended. These financial statements are the responsibility of the plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Municipal Employees' Pension Plan as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada

February 4, 2003

MUNICIPAL EMPLOYEES' PENSION PLAN **STATEMENT 1**
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS, ACCRUED PENSION BENEFITS AND SURPLUS

AS AT DECEMBER 31

	(in thousands) 2001	2000
ASSETS		
Investments (Note 3)		
Short term	$ 15,691	$ 42,733
Bonds	295,018	262,519
Equities	296,493	307,995
Pooled funds	307,336	302,023
Mortgages	2,321	2,428
Real estate	41,178	30,810
	958,037	948,508
Accounts receivable		
Employees' contributions	844	950
Employers' contributions	844	949
Other receivables	496	17
Accrued income	3,852	3,807
Due from General Revenue Fund (Note 4)	933	710
	6,969	6,433
Cash	463	577
Total assets	965,469	955,518
LIABILITIES		
Accounts payable	1,347	2,384
Accumulated provision for future annuities (Note 8)	42,466	39,761
Total liabilities	43,813	42,145
NET ASSETS AVAILABLE FOR BENEFITS	921,656	913,373
Accrued pension benefits (Statement 3, Note 7)	809,324	863,669
SURPLUS	$112,332	$ 49,704

(See accompanying notes to the financial statements)

MUNICIPAL EMPLOYEES' PENSION PLAN **STATEMENT 2**
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

YEAR ENDED DECEMBER 31

	(in thousands) 2001	2000
INCREASE IN ASSETS		
Investment income		
Interest	$ 22,643	$ 22,493
Dividends	25,007	24,031
Mortgages	126	225
Real estate	3,174	2,282
	50,950	49,031
Change in market value	(26,945)	40,739
Contributions		
Employee contributions	13,546	11,531
Employer contributions	13,361	11,448
Reciprocal transfers in	169	89
	27,076	23,068
Total increase in assets	51,081	112,838
DECREASE IN ASSETS		
Transfers, refunds and benefit payments (Note 6)	9,539	7,269
Defined benefit allowances	21,465	20,933
Annuity allowances	5,158	3,880
Administration costs (Note 9)	2,068	2,279
Investment and custodial fees (Note 9)	1,863	1,906
Change in provision for future annuities (Note 8)	2,705	5,675
Total decrease in assets	42,798	41,942
INCREASE IN ASSETS	8,283	70,896
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	913,373	842,477
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	$921,656	$913,373

(See accompanying notes to the financial statements)

MUNICIPAL EMPLOYEES' PENSION PLAN **STATEMENT 3**
STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS

YEAR ENDED DECEMBER 31

	(in thousands)	
	2001	**2000**
ACCRUED PENSION BENEFITS, BEGINNING OF YEAR	$863,669	$803,405
Increase in accrued pension benefits		
Interest on accrued benefits	58,551	55,553
Benefits accrued	38,779	34,167
Experience losses	37,343	-
	134,673	89,720
Decrease in accrued pension benefits		
Benefits paid	31,004	28,204
Experience gains	-	1,252
Changes in assumptions	158,014	-
	189,018	29,456
ACCRUED PENSION BENEFITS, END OF YEAR	$809,324	$863,669

(See accompanying notes to the financial statements)

MUNICIPAL EMPLOYEES' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2001

1. Description of the Municipal Employees' Pension Plan

General

The Municipal Employees' Pension Plan (the Plan) is composed of several activities. The following description of the Plan is a summary only. For more complete information, reference should be made to *The Municipal Employees' Pension Act*.

The Municipal Employees' Pension Act (the Act), Section 11, provides authority for the Plan. The Act directs that all allowances, payments and refunds under the Act shall be payable out of the Plan in the manner provided in the Act together with all benefits granted under a former Act. The Municipal Employees' Pension Commission is responsible for holding in trust and investing the monies of the Plan. The Municipal Employees' Pension Commission's composition and authority to administer the Plan are provided in Section 7 of the Act.

Defined Benefit Plan

The Defined Benefit Plan became effective July 1, 1973. This Defined Benefit Plan is mandatory for permanent employees and optional for non-permanent employees.

A. Funding Policy

Effective January 1, 1993, contributions are established at 5.4% of salary (7.3% for designated police officers and firefighters). Contributions prior to January 1, 1993 were established at 7% of earnings net of deemed Canada Pension Plan contributions. Contributions are matched by the employer.

B. Pensions

Employees receive a pension at age 65 (age 60 for designated police officers and firefighters), for each year and fractional year of contributory service in the Plan prior to retirement that is determined as:

For service earned before 1990 and service earned after 2000 but before 2006, the number of years of contributory service during these periods times the greater of:

a) 1.8% times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (2% for police officers and firefighters); or

b) i) 1.3% of that portion of the member's average salary not exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan; and

ii) 2% of that portion of the member's average salary exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan.

For service earned after 1989 but before 2001 and service earned after 2005, the number of years of contributory service during these periods times the greater of:

a) 1.5% times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (1.7% for police officers and firefighters); or

b) i) 1.3% of that portion of the member's average salary not exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan; and

ii) 2% of that portion of the member's average salary exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan.

C. Retirement

Normal retirement is at age 65 for general members and age 60 for emergency members. Members may retire earlier under certain conditions.

The Plan also provides benefits in the event of termination of employment, death or disability.

D. Surplus

Any surpluses arising in the Plan can be utilized at the discretion of the Commission.

Money Accumulation Plan

The Money Accumulation Plan consists of members who made contributions to the Money Accumulation Plan in effect prior to July 1, 1973. Members may retire and purchase an annuity at age 65. Members may retire earlier under certain conditions. Upon retirement a member must purchase an annuity from either the Plan or a private insurer based on employee and employer contributions together with the interest thereon. The annuity purchased from the Plan can be indexed or not. In the event of death prior to retirement, the member's spouse may receive a life annuity or elect to receive a lump sum payment of employee and employer contributions plus interest. If the member's beneficiary is other than the spouse, a lump sum payment of employee and employer contributions plus interest is made.

In addition, the accounts set up to record mandatory contributions made to the Plan prior to July 1, 1973, may also contain:

- voluntary employee and/or employer contributions made either before or after July 1, 1973 and until December 31, 1992;

- any employee and/or employer contributions made to the Plan subsequent to normal retirement age; and

- any excess employee funds transferred from the Defined Benefit Plan pursuant to subsection 20(4) of *The Municipal Employees' Pension Act* up until December 31, 2000.

Annuity Underwriting

If a member elects to purchase an annuity through the Commission, an annuity contract is issued based on the member's balance, current interest rates and annuity tables.

The present value of future annuities is reflected as a liability of the Plan.

Supplementary Benefits

In accordance with the Act, the Commission may grant supplementary benefits to those members receiving pensions and annuities to compensate them for lost purchasing power. The Commission may grant the supplementary benefits as long as the solvency of the entire Plan is not impaired.

Those annuitants who purchased indexed annuities are indexed using the Saskatchewan Consumer Price Index each January. The Commission has guaranteed indexation on pensions with service accrued before 1999 equal to the lesser of the increase in the Saskatchewan Consumer Price Index during the previous calendar year or an annual rate of 2%.

2. Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

Valuation of Investments

Investments in bonds and equities are recorded at market values which are determined by reference to closing year end sale prices from recognized security dealers or, in the absence of recorded sales, by reference to closing year end bid and ask prices.

Investment transactions are recorded on the trade date. Interest income is accrued monthly and dividend income is recognized on the record date.

Short term investments are valued at cost, which approximates market value.

Pooled funds are valued based on the quoted market price of the underlying investments, normally the current bid price.

Real estate is valued at market value as estimated by independent appraisals.

Mortgages are valued at their net present value by discounting cash flows to current market rates of return.

Foreign Currency

Transactions conducted in foreign currencies are translated into Canadian dollars using the exchange rate in effect at the settlement date. Gains and losses arising on translation are included in the current period change in market value of the investments. Monetary items denominated in foreign currency are translated at the exchange rate in effect at year end.

Accumulated Provision for Annuities Payable

The accumulated provision for annuities payable represents the present value of the annuities underwritten by the Plan and is determined pursuant to an actuarial valuation. Any change in the liability pursuant to the valuation is recognized as a revenue or expense item in that year's operations.

3. Investments

The investment objectives of the Plan are to ensure the Plan has sufficient assets to meet future pension obligations and to generate sufficient cash flow to meet pension payments. Due to the long term horizon of the Plan's liabilities, the Plan takes a long term investment perspective. The strategy employed to achieve these objectives is to use investment managers to invest cash flows from contributions, maturing debentures, and investment returns into assets such as Canadian equities, pooled funds, money market securities and bonds.

a) Interest Rate Risk

Interest rate risks refers to the adverse consequences of interest rate changes on the Plan's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Plan's assets and liabilities.

The value of the Plan's assets is affected by short term changes in nominal interest rates and equity markets.

b) Credit Risk

Credit risk arises from the potential for a counterparty to fail or for a counterparty to default on its contractual obligations to the Plan. The Plan limits the credit risk by dealing with counterparties that are considered to be high quality. The credit ratings used to describe securities below are based on a recognized credit rating service.

Short Term Investments

These investments are comprised of treasury bills, notes and commercial paper. Short term investments for the year 2001 had effective interest rates of 2.0% to 2.3% (2000 - 5.5% to 8.6%) and an average term to maturity of 86 days (2000 - 93 days). The Plan's investment policy states that investments must meet a minimum investment standard of "R-1" or equivalent rating as rated by a recognized bond rating service. Other than the Government of Canada, no single issuer represents more than 22.18% (2000 - 18.37%) of the total Plan's short term investments.

Bonds and Debentures

The Plan's investment policy states that bonds must meet a minimum quality standard of BBB as rated by a recognized bond rating service. In addition, not more than 15% of its total bond market value may be invested in BBB rated bonds. As at December 31, 2001, the Plan held 4.78% (2000 – 4.28%) of its portfolio in BBB bonds.

The Plan's investment in bonds and debentures are described below.

	2001 (in thousands)						**2000** (in thousands)		
Years to Maturity	**Federal**	**Provincial**	**Corporate**	**Total Market Value**	**Coupon Rate**	**Weighted Yield to Maturity at Market**	**Total Market Value**	**Coupon Rate**	**Weighted Yield to Maturity at Market**
Under 5	$ 63,500	$18,664	$40,253	$122,417	4.22-9.70%	5.86%	$ 98,346	4.88-9.7%	6.05%
5 to 10	43,478	13,977	29,975	87,430	4.50-10.40%	6.27%	85,435	5.25-10.75%	6.70%
Over 10	52,045	12,862	20,264	85,171	5.05-11.25%	6.08%	78,738	4.21-11.25%	5.94%
Market Value	$159,023	$45,503	$90,492	$295,018			$262,519		

Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Included in bonds and debentures are corporate bonds denominated in United States dollars. The Canadian market value of these bonds is $1,110,493 (2000 - $2,918,956).

Equities

The Plan's investment policy allows no one holding to represent more than 10% of the market value of the related portfolio and no one holding to represent more than 10% of the common stock in any corporation.

The investment policy allows between 20% and 40% of the fund to be invested in foreign equities, including those held in pooled funds. As at December 31, 2001 the Plan held 23.9% (2000- 22.2%) in total foreign equities.

All foreign equities are denominated in Canadian dollars.

The Plan's equities include common shares that have no fixed maturity date and are generally not exposed to interest rate risks. Dividends are generally declared on a quarterly basis. The average effective dividend rate is 1.97% (2000- 1.90%).

Pooled Funds

The Plan limits its investments in pooled equity funds to 10% of the market value of each fund. The Plan holds units in pooled funds which have no fixed interest rate and its returns are based on the success of the investment manager.

The Plan's pooled funds are comprised of:

	Market Value (in thousands of dollars)	
North American Equity	**2001**	**2000**
Barclays Synthetic US Equity Fund	$ 50,215	$ 33,579
Barclays Synthetic US Mid Cap Equity Fund	38,318	34,986
Global Equity		
Greystone Non-North American Fund	51,174	58,714
Greystone Emerging Market Fund	4,780	4,486
Brandes International Equity Fund	89,024	75,259
Fixed Income Funds		
Barclays Bond Fund	73,825	94,999
	$307,336	$302,023

The Barclays synthetic funds use US stcck index futures combined with Canadian money market instruments to create a synthetic US equity investment, hedged into Canadian dollars.

Mortgages

All mortgages are secured by Canadian commercial properties and have effective and stated interest rates of 7.7% to 11.07% (2000 – 7.7% to 11.07%) with an average remaining term to maturity of 6.9 years (2000 - 5.8 years). Principal and interest are receivable on a monthly basis.

Real Estate

Investments in real estate consist of Canadian commercial property.

Included in the totals for real estate are holdings of SaskPen Properties Ltd. totaling $1,945,312 (2000 – $2,100,538). SaskPen Properties Ltd. is a real estate corporation beneficially owned by Crown managed pension funds in the Province of Saskatchewan. Investment income including the current period change in the market value of investments from this holding totaled $263,818 (2000 - $198,206).

4. Due from General Revenue Fund

The Municipal Employees' Pension Plan's bank account is included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

Earned interest is calculated and paid by the General Revenue Fund on a quarterly basis using the Government's thirty day borrowing rate and the Municipal Employees' Pension Plan's average daily bank account balance. The Government's thirty day borrowing rate for 2001 was 4.3% (2000 - 5.5%).

5. Earnings Allocation to Members

Part of the change in market values of investments is allocated annually to members of the Plan. The maximum market value change deferred to future years is 3% of the total market value of investments at December 31 of each year. Unallocated changes are recognized equally in each of the three subsequent years.

These unallocated changes are included as follows:

(in thousands)

	Members' Accumulated Balances	Unallocated Change in Market Value	Net Assets Available for Benefits
2001	$927,800	$(6,144)	$921,656
2000	$884,918	$28,455	$913,373

Interest is allocated annually to the individual member's account balances in accordance with the provisions of the governing legislation. In 2001, an interest rate of 5.7% (2000 - 9.1%) was approved by the Commission for the Money Accumulation Plan and 5.7% (2000 - 9.1%) for the Defined Benefit Plan. The interest allocated is investment income, the current year's allocation of the change in market values of the investments, less administration, custodian and investment managers' fees.

6. Transfers, Refunds and Benefit Payments

(in thousands)

	2001	2000
Transfers to other retirement plans	$ 628	$ 294
Transfers to locked-in RRSPs	5,445	2,742
Lump sum payments to estates	1,119	911
Payments in lieu of annuities	287	340
Withdrawals with interest	2,060	2,982
	$9,539	$7,269

7. Actuarial Valuation-Accrued Pension Benefits

The actuarial present value of pension benefits for the defined benefit component of the Plan was determined using the projected benefit method prorated on service and the administrator's best estimate of future investment performance, salary escalation and future pension indexing.

An actuarial valuation, performed as at December 31, 2001 by Eckler Partners Ltd. showed that the Plan had an actuarial surplus in respect of past service. The previous valuation was performed as at December 31, 1998 by AON Consulting Inc. and extrapolated to December 31, 2000.

The pension liability is based on a number of assumptions about future events including interest rates, rate of salary increases, inflation, mortality, retirement rates and termination rates. The assumptions used in determining the actuarial present value of pension benefits for the defined benefit component of the Plan were:

	2001	2000
Interest rate	6.5%	6.75%
Salary escalation rate	4%	4% to 5%
Inflation	3%	3% to 4%
Indexation of pensions	100% of inflation for post 1998 benefits	100% of inflation
Mortality	GAM 1994 (without projection)	GAM 1983 (projected to 2005)

Actual rates may vary significantly from the long term assumptions used. The following illustrates the effect of changing certain assumptions from the assumed rates of salary 4%, interest rate 6.5% and pension indexing 3%. The changes in assumptions are independent of one another.

	Effect on Accrued Pension Benefits Liability					
	Salary		Interest Rate		Pension Indexing (post 1998)	
Assumptions	3.0%	5.0%	5.5%	7.5%	2.0%	4.0%
(Decrease) Increase	(2.9)%	3.4%	15.6%	(11.5)%	(1.5)%	1.8%

A decrease in the accrued pension benefits liability of $158,014,000 was due to changes in assumptions. The significant changes in assumptions include a decrease in pension indexing from 4% to 3% and a maximum indexing of 2% on pre 1999 benefits instead of using the full rate of inflation. Experience losses of $37,343,000 arose in the actuarial valuation due to differences between the actual and expected experience of terminations, retirements, mortality, and salary variations.

8. Accumulated Provision for Future Annuities

The accumulated provision for annuities payable is the actuarial present value of the expected annuity benefit obligations to annuitants. Eckler Partners Ltd performed an actuarial valuation of annuities as at December 31, 2001. The previous actuarial valuation was performed by AON Consulting Inc. as at December 31, 2000.

The actuarial valuation was based on a number of assumptions about future events including interest rates, pension indexing and mortality. The interest rate assumption is 6.0% (2000 – 6.75%), pension indexing is 3% (2000 – 4%) and for mortality the 1994 Group Annuity Mortality table rates are used (2000 – 1983 Group Annuity Mortality table rates projected to 2005).

The actual rates may vary significantly from the assumptions used. The following illustrates the effect of changing certain assumptions from the assumed interest rate of 6.0% and pension indexing of 3%. The changes in assumptions are independent of one another.

	Effect on Accumulated Provision for Future Annuities Liability			
	Interest Rate		Pension Indexing	
Assumptions	5.0%	7.0%	2.0%	4.0%
(Decrease) Increase	7.3%	0.0%	(0.1)%	0.2%

The increase in the interest rate does not decrease the provision for future annuities liability as any excess interest above 6% will increase benefits to annuitants.

The annual change in the annuities payable is reflected in the statement of changes in net assets available for benefits. The principal components of change during the year were as follows:

	(in thousands)	
	2001	**2000**
Accumulated provision for annuities payable, beginning of year	$39,761	$34,086
Interest on provision for annuities payable	2,536	2,301
New annuities purchased during the year	504	1,212
Annuities paid	(5,158)	(3,880)
Ad hoc indexing increases	3,268	-
Experience losses	102	522
Change in assumptions	1,453	5,520
Accumulated provision for annuities payable, end of year	$42,466	$39,761

9. Administration Expenses

The annual operating expenditures associated with the Plan's administration are paid to the Public Employees Benefits Agency Revolving Fund except for custodial fees and investment management fees, which are paid directly.

	(in thousands of dollars)			
	2001		**2000**	
	Budget	Actual	Budget	Actual
Administration costs	$2,991	$2,068	$2,508	$2,279
Custodial fees	99	96	121	104
Investment management fees	1,982	1,767	1,883	1,802
	$5,072	$3,931	$4,512	$4,185

10. Related Party Transactions

All Government of Saskatchewan agencies such as departments, corporations, boards and commissions are related since all are controlled by the Government. Costs charged by the Public Employees Benefits Agency Revolving Fund in administering the Plan are reflected in these financial statements.

The Plan holds $3,761,027 (2000 - $3,074,461) Province of Saskatchewan Bonds and Debentures. Investment income on these bonds and debentures, including the current period change in the market value of investments, was $243,068 (2000 - $567,169).

Other related party transactions are disclosed separately in these financial statements.

Account balances resulting from the above transactions are included in the statement of net assets available for benefits and are settled at agreed upon exchange rates.

11. Investment Performance

The investment managers make day-to-day decisions on whether to buy or sell investments in order to achieve the long term performance objectives set by the Commission. The Commission reviews the investment performance of the plan in terms of the performance of the benchmark portfolio over 4 year rolling periods. The primary long term investment performance objective for the entire portfolio is to outperform a benchmark portfolio.

The following is a summary of the Plan's investment performance:

	2001	Rolling Four Year Average Annual Return
Plan's actual rate of return (a)	2.6%	8.9%
Target rate of return (b)	(3.2)%	6.4%

(a) The annual returns are before deducting investment expenses.
(b) The Plan's target rate of return for its investment portfolio (return on the benchmark portfolio) has been determined using the actual returns of the market indexes such as the Toronto Stock Exchange 300 Index, Standard & Poors 500 US Stock Index and the Scotia Capital Markets Universe Bond Index.

12. Fair Value

For the financial instruments including cash, short term investments, accounts receivable, and accounts payable, the cost approximates the fair value due to their immediate or short term maturity. The fair values of investments are considered to be market value, the calculation of which is detailed in Note 2. The fair value of the accumulated provision for annuities payable, as well as the accrued pension benefit liability, cannot be readily determined, however information about these liabilities is provided in Notes 7 and 8.

13. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

APPENDIX 'A'

DESCRIPTION OF MARKET INDICIES

Toronto Stock Exchange 300 Composite Index (TSE 300) is a capitalization-weighted index (i.e., the larger the float capitalization, the greater the weight in the Index). The TSE 300 is comprised of the 300 largest stocks on the Toronto Stock Exchange, ranked by the market value of a stock's tradable market capitalization, and is the broadest Canadian equity index available.

TSE/CPMS 300 Cap 10 Index is a capitalization weighted index comprised of all of the stocks included in the TSE 300 Composite Index. The float capitalization weight of any stock that exceeds 10% of the TSE 300 Composite Index is capped at 10$ of the CPMS 300 Cap 10 Index on a daily basis.

Nesbitt Burns Small Cap Index is made up of representative stocks with market capitalization of less than 0.1% of the TSE 300 total capitalization. The Index is capitliazation-weighted and contains 400 stocks.

Standard & Poor's 500 Stock Composite Index (S&P 500) is a capitalization-weighted index of publicly traded stocks issued by 500 of the largest U.S. companies. For the purposes of this annual report, the S&P Index returns are converted from U.S. to Canadian dollars, and therefore reflect currency gains or losses.

MSCI Europe, Australia and Far East Index (EAFE) includes 21 of the world's largest industrialized countries (excluding Canada and the U.S.). The index is capitalization-weighted and contains almost 1,100 stocks. The Index is updated periodically and new countries are added when they meet the eligibility criteria. As of May 31, 2001, the Index is transitioning to a float-based capitalization that is designed to capture a larger part of the individual markets' investable capitalization.

Russell Canadian Property Index provides a comprehensive benchmark of investment returns for institutional real estate properties that are geographically dispersed across Canada. Almost 1,000 properties with an aggregate value of about $15 billion are included in the index.

Scotia Capital Markets Universe Bond Index is a market value-weighted index containing bonds with a term to maturity in excess of one year and is designed to track the broad Canadian bond market. The index does not contain foreign-pay bonds, mortgage backed securities or real return bonds.

Scotia Capital Markets 3-year Conventional Mortgage Total Return Index is calculated using the composite of 3-year mortgage rates offered by major institutional lenders as at each month end. Index returns reflect mortgage yields and capital gains/losses, using a base year unit value of December 31, 1979.

Canada Treasury Bills represent the highest quality short-term instrument available. Effective January 1, 1995, the Scotia Capital 91-Day Treasury Bill Index is calculated and marked to market daily.

Consumer Price Index is used to gauge Canada's inflation rate. The series used is all items, not seasonally adjusted, 1986 base.